

REVIEW OF OPERATION

For the period under review, the Group reported a total turnover of approximately HK\$214.7 million. This represented an increase of approximately 21.9% to that of the corresponding period ended 30 September, 2001. Printing and manufacture of packaging boxes, including accompanying brochures, manuals and catalogues, together with the manufacture of children novelty books continued to be the Group's major business. At the effort of the Group, the Group has been able to achieve a 17.2% growth in this category through a more proactive marketing strategy and strengthened marketing team. Orders for this category from both the existing and new customers have increased by about HK\$24.2 million to HK\$164.8 million and which was about 76.7% of the total turnover of the Group for the six months ended 30 September, 2002. The Group has also seen a growth in the turnover of commercial printing and the manufacture of hangtags, labels, shirt paper boards and plastic bags through its endeavour. For the period under review, the turnover of commercial printing and the manufacture of hangtags, shirt paper boards and plastic bags have increased by HK\$10.7 million to HK\$37.6 million and HK\$3.8 million to HK\$12.3 million respectively and which were about 17.6% and 5.7% of the Group's total turnover for the six months ended 30 September, 2002. Continuous intensive price competition within the industry and rising paper costs during the period under review have imposed a downward pressure to the profit margin of the Group. For the six months ended 30 September, 2002, the gross profit margin of the Group dropped by 3.8% to 24.5% as compared to its gross profit margin of 28.3% of the previous corresponding period ended 30 September, 2001.

The Group's printing business continued to provide positive and steady contributions both in terms of operating profit and cashflow. However, the Group reported a loss from operating activities of about HK\$5.8 million and a net loss from ordinary activities attributable to shareholders of about HK\$7.3 million after the finance costs and taxation charges for the period under review. This was mainly due to a provision for a revaluation deficit of about HK\$4.3 million on the Group's leasehold land and buildings and investment properties not covered by previous revaluation surplus and a provision for the recovery of the outstanding principal amount of the Note of HK\$23.5 million and the accrued interest of HK\$0.7 million. In July 2001, the Group entered into an agreement with an independent third party private company (the "Borrower") for the subscription of a convertible redeemable note (the "Note") for HK\$24 million at an interest rate of 8% per annum payable every quarter in arrears (the "Note Agreement"). The Borrower is engaged in the undertaking of maintenance building works from the Hong Kong SAR Government as a subcontractor. The outstanding principal amount of the Note may be converted into ordinary shares prior to its maturity in July 2003 by the Group. If the Note is not converted, it will be redeemed at par. In accordance with the Note Agreement, if there are events the occurrence of which would have an adverse impact on the Borrower's financial position, the Note will become immediately due and payable. Up to 31 March, 2002, interest payment of HK\$1.4 million has been made by the Borrower. On 22 May, 2002, the Group issued a demand letter to the Borrower for the repayment of the principal of HK\$24 million together with the accrued interest on the basis that the Directors became aware of certain events which they believe might have an adverse impact on the Borrower's financial position. Upon the failure to reach an immediate settlement agreement with the Borrower the Group filed for winding up petition against the Borrower in the High Court of Hong Kong SAR on 14 June, 2002. On 17 July, 2002, the Directors reached a settlement agreement with the Borrower for the

full repayment of the Note and the Borrower has made prompt settlement of the first instalment in accordance with the settlement agreement. Accordingly, the petition against the Borrower was withdrawn by the Group on 17 July, 2002. On 27 August, 2002, the Group issued a demand letter again to the Borrower for the repayment of the outstanding principal of HK\$23.5 million together with the accrued interest upon the failure of the Borrower to meet the second instalment in accordance with the settlement agreement. On 18 September, 2002, the Group filed for winding up order against the Borrower in the High Court of Hong Kong SAR upon the failure of the Borrower to make the settlement as stipulated by the demand letter. On 20 November, 2002, the Borrower was ordered wound-up by the High Court and provisional liquidator was appointed pending the first meeting of creditors. In view of the development of the situation, the Directors consider it appropriate to make a full provision for the recovery of the outstanding principal amount of the Note of HK\$23.5 million and the accrued interest of HK\$0.7 million. Had such full provision and the provision of the revaluation deficit as mentioned above been excluded, the operating profit of the Group's printing business for the period under review would have been at approximately HK\$22.8 million and the net profit from the Group's printing business attributable to shareholders after the finance costs and taxation charges would have been about HK\$21.3 million.

LIQUIDITY AND FINANCIAL RESOURCES

The Group generally finances its operations with internally generated cashflow and banking facilities provided by its principal bankers in Hong Kong. The Group is financially sound. As at 30 September, 2002, the Group has available aggregate banking facilities of approximately HK\$38.3 million which were secured by legal charges on certain properties owned by the Group. The Group's cash and bank balances and short term bank deposits as at 30 September, 2002 amounted to approximately HK\$43.6 million. The Group's gearing ratio as at 30 September, 2002 was 1.9% (31 March, 2002: 2.5%), basing on the short term and long term interest bearing bank borrowings of HK\$5.7 million (31 March, 2002: HK\$7.8 million) and the shareholders fund of HK\$295.0 million (31 March, 2002: HK\$308.6 million).

PROSPECTS

The Directors believe that price competition within the printing industry will continue to be keen as customers will continue to be cautious in placing orders under the prevailing uncertain global political and economic environment. To enhance its competitive edge without at the expense of reduced profit margin, every effort will be made by the Group to improve its operational efficiency through streamlined production procedures, upgraded production technology, tightened internal controls and closely monitored cost saving measures. And in order to explore further market share especially during the traditional low season within the industry, proactive marketing strategy will continue to be implemented. Endeavour will be made to provide more high quality products mix and value-added services to customers. The Directors believe that with its solid foundation and committed focus, the Group will be able to meet the ever increasing competition and challenge within the industry.